



Manager Q&A: The Delafield Fund

The Delafield Fund

Symbol:	DEFIX
Total assets (6/30/14):	\$1.7 billion
Inception date:	11/19/1993



J. Dennis Delafield, CFA
Co-Portfolio Manager

Prior to joining Tocqueville in 2009, Mr. Delafield founded Delafield Asset Management, Inc. in 1980 which became affiliated with Reich & Tang Asset Management, LLC in 1991. He has a BA from Princeton University and holds the CFA designation.



Vincent Sellecchia, CFA
Co-Portfolio Manager

Prior to joining Tocqueville in 2009, Mr. Sellecchia held executive level positions at Reich & Tang Asset Management, LLC and Delafield Asset Management, Inc. He has a BA from Boston College, an MBA from New York University, and holds the CFA designation.

Q1: What is your investment “sweet spot”?

Our primary emphasis is on small- to mid-capitalization value stocks, with our “sweet spot” within the \$2 billion to \$10 billion market cap range. We favor undervalued and/or special situation companies, that we believe are selling below their intrinsic value and where a fundamental change is underway, but not yet obvious to the market.

Q2: The Delafield team is known as a deliberate, research-driven manager. Would you please discuss your research process?

Before becoming a portfolio holding, every stock is thoroughly vetted. We conduct extensive research on each company by meeting with management, visiting company headquarters and facilities, and analyzing financial statements in detail. In addition, we utilize our own proprietary quantitative research tools to help us analyze a company’s free cash flow, profit profile and valuation metrics. We believe this in-depth analysis gives us a deeper understanding of the companies compared to our peers and allows us to have the conviction to hold a stock where others don’t see value.

Q3: When seeking special situation companies, what events help generate your ideas?

A number of changes in the market or within a particular company can spur a special situation. Special situation investments could result from the following: a change in management or strategic direction, hidden or unappreciated assets, earnings disappointments, inexpensive or depressed valuations or a redeployment of capital, such as in a merger and acquisition activity.

Any one of these situations gives us reason to research further and build our conviction. For example, a company could have a shareholder activist that may exert significant influence and change the direction of the company in a positive way. Additionally, a company may have new management with a stated goal of increasing shareholder value and an executable plan to help realize that goal.

Q4: Would you please give an example of a special situation holding undergoing a catalyst for change?

Ascena Retail Group, Inc. is one example of a company that we believe is undervalued given a number of changes that are underway. Ascena is a girls’ and women’s specialty retailer operating through five retail brands, including Justice, Lane Bryant, Maurices, Dressbarn and Catherines. Though near term retail sales trends are likely to remain challenging, we believe the company has a number of opportunities for improved earnings growth over the next 12 to 18 months.

Under its prior owner, the Lane Bryant division, which Ascena acquired in 2012, had been impacted by fashion missteps, poor inventory management and a bloated corporate structure. As a result, its profitability had been impaired. Ascena management has initiated a corporate overhead reduction program which is expected to disproportionately benefit the Lane Bryant operations when complete in three years. Additionally, Linda Heasley, who had been running The Limited since 2007, was brought in last year as CEO of Lane Bryant and will spearhead an effort to rebrand the division. A successful

About Tocqueville

With approximately \$13.0 billion in assets under management as of June 30, 2014, Tocqueville Asset Management, with its founding principals, has been managing private fortunes for more than 30 years, and has served as the advisor to the Tocqueville Trust since its inception. In working with financial planning professionals and their clients, Tocqueville considers the preservation of capital its primary investment objective. Tocqueville’s value style of investing, coupled with its contrarian spirit, drives it to emphasize absolute rather than relative performance for investors.



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turnaround of the division would generate substantial earnings leverage. Companywide, management has identified additional cost reduction programs, including distribution center consolidation, which is nearing completion as well as real estate and sourcing efficiencies. Growth opportunities include a new boys' concept called Brothers, as well as international opportunities where several of their divisions appear to have a promising future.

Q5: With the S&P 500 Index reaching new highs in the past several months, the Fund's performance has been tempered by its cash position. What role does cash play in your portfolio construction?

Our cash position is not strategic in nature but is the residual of the number of opportunities, or lack thereof, that meet our strict investment discipline. We are value-oriented, long-term investors, not short-term stock traders. As a result, we will not overpay and remain very deliberate in our cash deployment. With the market hitting new highs, we believe certain sectors may experience selling pressure in the short term, thereby providing us with a value opportunity. Our current cash reserve of 14% at the end of the second quarter gives us the dry powder to take advantage of opportunities that the market will inevitably create. We believe our long-term focus and deliberate cash deployment has served investors well over full market cycles.

Investment Performance (as of 6/30/14)	Average Annual Total Return ¹			
	1 Year	5 Year	10 Year	15 Year
The Delafield Fund (DEFIX)	24.41%	20.25%	10.58%	11.95%
Russell 2000 Index	23.64%	20.21%	8.70%	8.01%
S&P 500 Index	24.61%	18.83%	7.78%	4.35%
Morningstar Mid-Cap Value Funds Category Average	25.45%	20.46%	9.01%	9.02%
Category Rank (%)	63	59	10	4
# of Funds in Category	424	314	205	79
Expense Ratio: 1.22%				

Source: Morningstar

Performance data represents past performance and does not guarantee future performance. The investment return and principal value of an investment will fluctuate and the investor's shares, when redeemed, may be worth more or less than their original cost; and current performance may be lower or higher than the performance data quoted. Fund performance current to the most recent month-end may be obtained by visiting our website at <http://tocqueville.com/mutual-funds/delafield-fund/performance>, or by calling 1-800-697-3863. Total returns assume reinvestment of dividends and capital gains.

¹Performance for periods before 9/27/09 is for Delafield Fund, Inc. (the "Predecessor Fund"), which was reorganized into the Delafield Fund on 9/28/09. The Predecessor Fund had the same Portfolio Managers, investment objectives and strategies as the Delafield Fund. Performance since 9/28/09 reflects actual Delafield Fund performance.

The Fund invests in smaller companies, which involve additional risks such as limited liquidity and greater volatility.

The Russell 2000 Index consists of the smallest 2000 companies in a group of 3000 U.S. companies in the Russell 3000 Index, as ranked by market capitalization. The S&P 500 Index is a market-value weighted index consisting of 500 stocks chosen for market size, liquidity, and industry group representation. You cannot invest directly in an index.

The Fund held 1.22% in net assets of Ascena as of 6/30/14. References to securities or investments in this article should not be considered recommendations to buy or sell. Securities that are referenced may be held in other portfolios managed by Tocqueville or owned by principals, employees and associates of Tocqueville, and such references should not be deemed as an understanding of any future position, buying or selling, that may be taken by Tocqueville.

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